

DATE 10/05/86

FILE 25X1

DOC NO EUR M 86-20112OIR 3DDI/EURA/EE,
1 October 1986

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Background Paper on Hungary for DCI Meeting with the
Ambassador to Budapest, 2 October 1986

Party leader Janos Kadar largely succeeded in healing the wounds of 1956 and made Hungary a model of stability and prosperity in Eastern Europe. He has done this by forging a social consensus based on consumerism and relaxed relations between the party and the people. The consensus is now fraying, however, largely as a result of economic stresses and an impending succession.

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Domestic Issues

Hungarian society is permeated by a sense of political confusion and ideological contradictions. Hungarians complain openly about drift in policymaking and a lack of leadership.

- o The 74-year-old Kadar remains in charge. He has been gradually cutting back his routine, day-to-day burdens, however.

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- o Kadar is trying to promote a collective leadership to assure a smooth transition of power.

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- o There is no clear ideological consensus on public policies. Even within the party, opinion is divided over the doctrinal legitimacy of such things as private boutiques and prices that are linked to market forces. Some leaders contend such problems as growing inflation and income inequalities are products of Hungary's market-oriented reforms, while others argue that piecemeal implementation is to blame for the continuing economic troubles. The leadership appears unable to agree on the pace and scope of further reform.

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Economic Problems

Top economic policymakers have publicly expressed increasing concern about economic prospects, perhaps in an effort to prepare the population for hard times ahead.

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- o Hungary's economic growth has been among the lowest in Eastern Europe in recent years and living conditions have stagnated. Hungary faces the possibility of no growth this year and planners are scaling down goals for 1987.
- o Nevertheless, Budapest continues to have good access to foreign credit. Although the foreign debt currently appears manageable, its steady rise has made Budapest increasingly vulnerable to changes in the lending climate.
- o Prospects of reversing the slowdown are clouded by Soviet trade demands--which may limit resources available for domestic investment--Hungary's aging industrial base, and leadership indecision on reform. [REDACTED]

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Increasing Social Tensions

As economic stresses worsen, popular tensions are likely to increase, making it more difficult to preserve the social contract forged by Kadar.

- o Urban industrial workers appear particularly resentful. Unconfirmed reports of strikes have reached the West, and workers voiced unprecedented criticism of the ailing economy and feeble union performance at the trade union congress earlier this year.
- o Unusually forceful suppression of youth and dissident protest this spring reflects regime worry about the potential for wider unrest and may presage a hardening of Budapest's internal policies. [REDACTED]

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Foreign Policy

Budapest has been pursuing its national interests more assertively since about 1980.

- o Budapest contends that small states have a role to play in finding solutions to East-West problems.
- o Moscow is concerned that Hungary not become too dependent on the West but also endorses some Western ties because of the access they provide to modern technology and to sow divisions between Western Europe and the US. [REDACTED]

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Despite its dialogue with the West, Hungary remains loyal to the USSR on all major issues. [REDACTED]

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